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FM AMEMBASSY DAMASCUS

TO RUEHC/SECSTATE WASHDC IMMEDIATE 8749

INFO RUEHEE/ARAB LEAGUE COLLECTIVE IMMEDIATE

RUCNMEM/EU MEMBER STATES COLLECTIVE IMMEDIATE

RUEHTV/AMEMBASSY TEL AVIV IMMEDIATE 0947

RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE

RHMFISS/HQ USCENTCOM MACDILL AFB FL IMMEDIATE

RHEHNSC/NSC WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 002063

SIPDIS

SIPDIS

NEA/ELA

TREASURY FOR GLASER/SZUBIN/LEBENSON

NSC FOR ABRAMS/DORAN/SINGH

EB/ESC/TFS FOR SALOON

E.O. 12958: DECL: 05/03/2016

TAGS: [ECON](#) [EINV](#) [EFIN](#) [SY](#)

SUBJECT: CBS CONTINUING TO WEAKEN UNDER SECTION 311

REF: 06 DMS 01217

Classified By: Charge d'Affaires Stephen Seche, reasons 1.4 b/d

¶1. (C) Summary: Financial sanctions under USAPATRIOT Act Section 311 are beginning to weaken the Commercial Bank of Syria (CBS) as more financial institutions in Europe and the Gulf cease their business with the bank. The seriousness with which CBS management views the imposition of Section 311 was highlighted during a recent meeting it held for European missions to justify its own management procedures and attack US sanctions on the grounds of extraterritoriality. In addition, the pressure of sanctions is exposing faultlines in the CBS's financial position that were not fully anticipated, further eroding its dominance. While the Central Bank is attempting to take more responsibility for financial affairs, it remains a weak institution incapable of fulfilling the CBS's central role. End summary.

INCREASING ISOLATION

¶2. (C) Contacts contend that the Commercial Bank of Syria (CBS) is becoming increasingly cut off from the international financial system as more third-country banks are terminating their correspondent relationships with the CBS, continuing a trend of disengagement from the bank that has accelerated since the imposition of USAPATRIOT Act Section 311 sanctions (reftel). George Sayegh, General Manager of Bank of Syria and Overseas, reported that German Commerz Bank has informed him of its decision to halt all business with the CBS in any currency. The Dutch bank ING allegedly has canceled its confirmation of a letter of credit (LC) that the CBS opened in 2005 for diesel imports, which, if true, would add to the obstacles hindering the SARG's ability to meet burgeoning demand for the commodity. Nabil Hchaime, General Manager of Bank BEMO, stated his own belief that banks in Saudi Arabia now are disengaging from the Syrian market. Hchaime explained that a major Saudi bank recently refused to transfer funds to an account in Bank BEMO Syria to finance a tourism project in Lattakia, in which the Syrian governorate has a quarter share, because of the potential risk of interacting with the CBS. The Saudi bank finally agreed to send the funds to BEMO Lebanon for onward transfer to Syria.

WEAKENING POSITION

¶3. (C) The CBS's inability to maintain dollar assets abroad is putting pressure on the bank's internal vulnerabilities and inept management. Hasham Akkad, member of Parliament and

intimate of regime insiders, reported that sanctions have exposed a major vulnerability and money-losing policy in which the CBS historically increased its dollar assets by converting accounts denominated in Syrian Pounds (SYP) into dollars. The CBS then deposited the dollars in correspondent accounts abroad, on which it earned less in interest than it paid to its Syrian customers. Those dollars are now a liability, and as more foreign banks request that the CBS remove its dollars and close correspondent accounts, the CBS will witness a larger loss in profits. While its bottom line is protected by exclusive control of all public sector contracts, contacts say that the loss of overseas accounts is exacerbating other weaknesses. They specifically point to an estimated 400 billion SYP (\$8 billion) worth of deposits held at the CBS in local currency that are earning no interest while the CBS pays depositors six percent, and a default rate on loans to the private sector that may be as high as 80 percent.

¶4. (C) Contacts further contend that the CBS is losing customers, particularly private importers who have to pay for goods in dollars. Although many Syrian businessmen claim that they use foreign banks or Syria's informal sector to finance imports, businessmen who have been financing trade through the CBS increasingly are moving their accounts to Syria's private banks or banks abroad since major European institutions reportedly are refusing to confirm letters of credit (LCs) opened by the CBS. Syria's private banks also claim that they are being much more cautious about their dealings with the CBS, going as far as closing their correspondent accounts that they have held there. Sayegh stated that his parent bank, the Lebanese bank BLOM, has instructed him to avoid interactions with the CBS that could

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negatively impact BLOM's worldwide network.

#### CENTRAL BANK VYING FOR AUTHORITY

¶5. (C) The pressure of sanctions is beginning to erode the CBS's dominant role in Syria's financial system, contacts report, while the Central Bank may be vying to assume greater authority. Contacts contend that Central Bank Governor Adeeb Meyala is frantically trying to prepare the Central Bank to assume some of the functions that the CBS has performed over the past forty years. With the CBS unable to move its dollar assets, Sayegh expects that the SARG will choose to shift dollars from the CBS to the Central Bank, with the Central Bank taking over more responsibility for managing Syria's foreign accounts. Observers state, however, that while Meyala aspires to model his bank after the central banks in Beirut and Amman, Syria's Central Bank still lacks the human and institutional capacity to carry out the same role as the other central banks in the region. Despite the lack of capacity, contacts in the private banking sector are uniform in saying that the Central Bank has increased its efforts to monitor their activities, requiring monthly reports on the banks, financial position, how much of their deposits are in foreign currency, and the volume of international transactions. The private bankers complain that the reporting requirements are a burden and more of a paper exercise than an indication that the Central Bank is conducting proper oversight.

#### CBS FUTURE STRATEGIES

¶6. (C) In the face of these threats to its position, Dureid Durgham, President of the CBS, is actively seeking to keep his bank connected to the international system. Contacts say that he is considering switching all of his dollars into euros to avoid the US financial system, even though he would lose considerable value in the exchange. In addition, Durgham is reaching out to European governments, most of whose diplomatic missions still maintain accounts at the CBS, to enlist their support against unilateral US action. During

an April 24 meeting with economic counselors from EU member countries, Durgham presented himself as a reformer unfairly targeted by US sanctions. According to a number of European colleagues who were present at the meeting, Durgham questioned the legality of US sanctions on the grounds of extraterritoriality, complaining that the Section 311 sanctions unfairly regulate the activities of third-country financial institutions doing business with Syria. Fabrice Ferandes, an economist with the EC mission in Damascus, commented that his EU colleagues intend to follow up on the issue with European banks.

¶7. (C) Comment: It appears obvious at this point that Section 311 sanctions have caused the Commercial Bank of Syria (CBS) greater distress than originally anticipated, and impeding its ability to play its central role in Syria's financial sector. However, given the Central Bank's lack of institutional capacity and monetary tools, there still is no immediate, viable alternative to the CBS. The imposition of sanctions against the CBS has added new urgency to the pre-existing trend of Syrians moving their business to the private banks, but the sector still is rudimentary and unable to keep up with demand. As a result, Section 311 seems to be having a larger secondary effect, potentially weakening Syria's entire financial sector in the short-term.

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